

**CITY OF HARDY**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

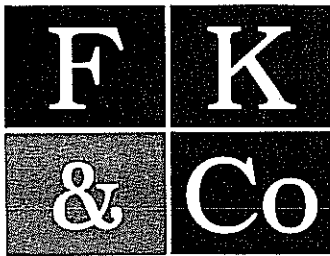
**FOR THE PERIOD  
AUGUST 1, 2013 THROUGH JULY 31, 2014**

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**City of Hardy**  
**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Denny Lippolt	Mayor	Jan 2016
Christine Harder	Council Member	Jan 2016
Tammie Tuttle	Council Member	Jan 2016
K Peterson	Council Member	Jan 2016
Teri Cerwick	Council Member	Jan 2016
Leonard Ferry	Council Member	Jan 2016
Cheryl May	City Clerk	Indefinite



**FALLER, KINCHELOE & Co, PLC**

**Certified Public Accountants**

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor  
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Hardy pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Hardy for the period August 1, 2013 through July 31, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

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9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Hardy, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Hardy, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hardy and other parties to whom the City of Hardy may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hardy during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co, PLC

December 15, 2014

## CITY OF HARDY

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (C) Clerk's Report – A monthly Clerk's report is prepared but does not include ending balances by fund or a budget vs actual comparison.

Recommendation – The City Clerk should prepare a monthly Clerk's report which includes a summary of receipts, disbursements and ending balances by fund. Also the Clerk's report should show a budget vs actual comparison.

## CITY OF HARDY

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (D) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. We noted that these requirements were not met by the City for some meetings tested.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa.

- (E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (F) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

- (G) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

- (H) Annual Financial Report - Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...". The City's Annual Financial Report reported receipts, disbursements, transfers and fund balances which do not agree with the City's records. In addition, the City did not report the correct budget amounts on the City's Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City's records. In addition, the City should ensure that the correct budget of the City is included on future Annual Financial Reports.

## CITY OF HARDY

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (I) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (J) Payroll – The following were identified:

- IRS Forms 941 reported the incorrect amount of wages subject to federal withholding.
- The City did not prepare any IRS Forms 1099 for the year ended December 31, 2013. We noted that the City should have issued a Form 1099.

Recommendation – The City should ensure future IRS payroll tax forms are calculated and filed properly. Also the City should file IRS Forms 1099 when applicable.

- (K) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, general government, and business-type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (L) Disbursement Approval – The City Council approves disbursements at each monthly meeting after some of the invoices have been paid.

Recommendation – The City could adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval.



CITY OF HARDY

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (M) Financial Condition – At June 30, 2014, the City had a deficit balance of \$39,418 in the Water Fund.

Recommendation – The City should investigate alternatives to eliminate the deficit to return the fund to a sound financial position.

- (N) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Teri Cerwick, Council Member Sole Proprietor	Recycling Services	\$1,340

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions with Teri Cerwick do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.